

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

VISTO CORPORATION,

No. C-04-0651 EMC

Plaintiff,

v.

SPROQIT TECHNOLOGIES, INC.

Defendant.

**ORDER GRANTING PLAINTIFF'S
MOTION TO DISMISS BASED ON
COVENANT NOT TO SUE; AND
FINDING MOOT PLAINTIFF'S
MOTION TO DISMISS AND
DEFENDANT'S MOTION FOR
PROTECTIVE ORDER**

(Docket Nos. 192, 213)

Plaintiff Visto Corporation has moved the Court to dismiss the entire case, both its claims and Defendant Sproqit Technologies, Inc.'s counterclaims. According to Visto, the case should be dismissed because it has extended to Sproqit a covenant not to sue and accordingly there is no case or controversy. Having considered the parties' briefs and accompanying submissions, the Court hereby GRANTS the motion to dismiss.

I. FACTUAL & PROCEDURAL BACKGROUND

On July 17, 2006, Visto filed a motion to dismiss the entire case. *See* Docket No. 192. In the motion, Visto argued in part that the Court should dismiss Sproqit's counterclaims because there is no case or controversy and accordingly no subject matter jurisdiction. According to Visto, there is no case or controversy because it is willing to waive damages for past infringement and Sproqit is a defunct business. Sproqit opposed the motion to dismiss and, in support of its opposition, Sproqit submitted a declaration from its president Gerald Trooien. In the declaration, Mr. Trooien stated,

1 *inter alia*, that “[o]nce this case is litigated to a successful conclusion Sproqit will resume
2 commercial operations, marketing its technology and products as superior solutions that are free of
3 any claim of infringement.” Trooien Decl. ¶ 6.

4 On August 30, 2006, the Court held a hearing on Visto’s motion to dismiss as well as
5 Sproqit’s motion for a protective order (to defer the deposition of Mr. Trooien). *See* Docket No.
6 213. During the hearing, the Court indicated that it would defer ruling on the motion to dismiss in
7 order to give Visto an opportunity to depose Mr. Trooien. Visto declined to take the deposition of
8 Mr. Trooien and instead extended to Sproqit a covenant not to sue. Relying on *Super Sack Mfg.*
9 *Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1058 (Fed. Cir. 1995), Visto argued that, in light of
10 the covenant not to sue, the case should be dismissed on the basis of lack of a case or controversy.
11 The Court ordered the parties to meet and confer on the covenant not to sue and provide
12 supplemental briefing as to whether the covenant did in fact divest the Court of jurisdiction but
13 otherwise stayed the litigation from proceeding. After supplemental briefing was provided on
14 September 8, 2006, the Court determined that the parties had failed to adequately meet and confer
15 and therefore instructed the parties to meet and confer a second time and then provide supplemental
16 briefing.

17 **II. DISCUSSION**

18 Visto extended to Sproqit the following covenant not to sue:

19 Visto will unconditionally agree not to assert any claim of
20 patent infringement against Sproqit under the claims of the patents-in-
21 suit as they presently read, with respect to any product currently
22 advertised, manufactured, marketed or sold by Sproqit, or any product
which was advertised, manufactured, marketed or sold by Sproqit
prior to the date of this covenant. This covenant is personal to Sproqit
and is not transferable.

23 Pl.’s Supp. Br. at 1-2. The main question for the Court is whether this covenant divests the Court of
24 jurisdiction with respect to Sproqit’s declaratory judgment counterclaims.

25 A declaratory judgment counterclaim may only be brought to resolve an “actual
26 controversy.” 28 U.S.C. § 2201(a). “[T]he actual controversy must be extant at all stages of review,
27 not merely at the time the complaint is filed.” *Super Sack*, 57 F.3d at 1058 (internal quotation marks
28 omitted). Under Federal Circuit law, in the patent context, there is a case or controversy with

1 respect to a declaratory judgment counterclaim when there is (1) an explicit threat or other action by
 2 the patentee, which creates a reasonable apprehension on the part of the declaratory plaintiff that it
 3 will face an infringement suit, and (2) present activity which could constitute infringement or
 4 concrete steps taken with the intent to conduct such activity. *See id.* The burden is on Sproqit “to
 5 establish that jurisdiction over its declaratory judgment action existed at, and has continued since,
 6 the time the [counterclaim] was filed.” *Id.* (internal quotation marks omitted).

7 As noted above, Visto argues that its covenant not to sue divests the Court of jurisdiction
 8 over Sproqit’s counterclaims based on *Super Sack*. In *Super Sack*, the Federal Circuit examined
 9 whether a declaratory plaintiff had a reasonable apprehension of suit when the declaratory defendant
 10 had extended a covenant not to sue. *See id.* at 1058-59. The covenant not to sue stated: “Super Sack
 11 will unconditionally agree not to sue Chase for infringement as to any claim of the patents-in-suit
 12 based upon the products currently manufactured and sold by Chase.” *Id.* at 1056 (emphasis
 13 omitted). The Federal Circuit commented as follows:

14 The legal effect of Super Sack’s promise not to sue is the heart of the
 15 matter, and the trial court acted consistently with that legal effect. In
 16 short, although Chase may have some cause to fear an infringement
 17 suit under the ‘796 and ‘652 patents based on products that it may
 18 develop in the future, Chase has no cause for concern that it can be
 19 held liable for any infringing acts involving products that it made,
 20 sold, or used on or before July 8, 1994, the day Super Sack filed its
 21 motion to dismiss for lack of an actual controversy. As to the ‘796
 22 and ‘652 patents, Super Sack is forever estopped by its counsel’s
 23 statement of nonliability, on its face and as explained during oral
 argument before this court, from asserting liability against Chase in
 connection with any products that Chase made, sold, or used on or
 before July 8, 1994. This estoppel, in turn, removes from the field any
 controversy sufficiently actual to confer jurisdiction over this case.
 Because Chase can have no reasonable apprehension that it will face
 an infringement suit on the ‘796 and ‘652 patents with respect to past
 and present products, it fails to satisfy the first part of our two-part test
 of justiciability.

24 *Id.* at 1059.

25 The Federal Circuit rejected the declaratory plaintiff’s argument “that Super Sack’s promise
 26 not to sue fails to eliminate the controversy between them because, however absolute it may be with
 27 respect to past and present products, the promise does not cover products that Chase may make, sell,
 28 or use in the future.” *Id.* The court explained that, under the second part of the declaratory

1 justiciability test, the alleged infringer must be engaging in present activity that places it at risk of
2 infringement liability.

3 Chase has, of course, never contended that it has already taken
4 meaningful preparatory steps toward an infringing activity by planning
5 to make a new product that may later be said to infringe. And Super
6 Sack's promise not to sue renders any past or present acts of
7 infringement that Chase may or may not have committed irrelevant to
8 the question whether a justiciable controversy remains. The residual
9 possibility of a future infringement suit based on Chase's future acts is
10 simply too speculative a basis for jurisdiction over Chase's
11 counterclaim for declaratory judgments of invalidity.

12 *Id.* at 1059-60.

13 In the instant case, Visto claims that its covenant not to sue is exactly like the covenant not to
14 sue offered by the declaratory defendant in *Super Sack*. Sproqit contends otherwise. More
15 specifically, Sproqit argues that *Super Sack* is not dispositive and Visto's covenant does not divest
16 the Court of jurisdiction: (1) because the covenant fails to identify the accused products; (2) because
17 the covenant does not extend to future products that are, in essence, functionally equivalent to the
18 products covered by the covenant; (3) because the covenant does not address inducement or
19 contributory infringement by Sproqit; (4) because the covenant does not cover Sproqit's customers,
20 licensees, or other authorized users; (5) because the covenant does not cover Sproqit's successors or
21 acquirers; (6) because the covenant does not cover Visto's successors; and (7) because the covenant
22 does not extend to re-examination claims. Sproqit further contends that, if Visto's covenant is
23 deemed adequate, then Visto's claims should be dismissed with prejudice and Sproqit's
24 counterclaims without prejudice. Each argument is addressed below.

25 At the outset, however, it should be noted that this Court, even prior to Visto's issuance of
26 the covenant not to sue, had serious questions about the justiciability of this suit in light of Visto's
27 waiver of claim for damages and undisputed information that Sproqit had ceased doing business and
28 was no longer selling the accused products. Under these circumstances, Sproqit was not currently
engaged in infringing activity and there was considerable doubt as to the immediacy and
concreteness of its intent and ability to do so in the future. *See Sierra Applied Sciences, Inc. v.*
Advanced Energy Indus., Inc., 363 F.3d 1361, 1372 (Fed. Cir. 2004) ("In the declaratory-judgment
context, 'the question in each case is whether the facts alleged, under all the circumstances, show

that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.”). Justiciability hinged on the rather conclusory assertions of Mr. Trooien that “[o]nce this case is litigated to a successful conclusion Sproqit will resume commercial operations” Trooien Decl. ¶ 6. It was when the Court directed the parties to engage in further discovery to flesh out Mr. Trooien’s statements that Visto issued the covenant not to sue.

A. Identification of Accused Products

Sproqit argues first that the covenant is inadequate because it does not identify the accused products. According to Sproqit, the accused products should be explicitly identified in the covenant. Sproqit, however, provides no authority to support its argument. Moreover, it appears that the covenant is actually broader by not identifying specific products. Sproqit has not shown otherwise. Nor has Sproqit shown that it plans to manufacture or sell other products not covered by the covenant. Accordingly, the Court rejects Sproqit’s argument that *Super Sack* is inapposite for this reason.

B. Future Products That Are Functionally Equivalent¹

Sproqit’s second argument is that the covenant is inadequate because Visto has “apparently take[n] the position that its covenant is limited to products advertised, manufactured, marketed, or sold, with no changes permitted, major, minor or otherwise.” Def.’s 2d Supp. Br. at 2 (emphasis omitted). The Court is not persuaded by Sproqit’s argument.

First the covenant does not state that it is so limited. Should an enforcement issue arise, it is not clear that Visto’s covenant not to sue will be so interpreted. In *Glenayre Elecs., Ltd. v. Polansky Elecs., Ltd.*, No. 90-1255 (RCL), 1994 U.S. Dist. LEXIS 8631 (D.D.C. Mar. 31, 1994), the court stated that “plaintiff’s concern that it will be unable to modify its existing products without fear of a lawsuit is unfounded . . . [a]s long as plaintiff does not make any material changes to its [product] line.” *Id.* at *6.

¹ Sproqit makes a variation of this argument in asserting that the covenant is deficient because a direct infringer could make a trivial modification to the accused products and that Sproqit could thereby be held liable for indirect infringement.

Second, this is not a situation where Sproqit “has developed and imminently plans to release new versions of its products.” *BIS Advanced Software Sys., Ltd. v. Red Bend Software, Inc.*, No. 04-11960-RWZ, 2006 U.S. Dist. LEXIS 12223, at *4 (D. Mass. Mar. 22, 2006). No such evidence has been presented to the Court. Nor has Sproqit submitted evidence that it regularly updates its products. *See id.* at *3 (“Because defendant regularly updates its products, . . . it is still vulnerable to an infringement suit.”). Thus, the issue of the application of the covenant to functionally equivalent variations is at this point speculation.

Finally, even if the Sproqit Architecture is, “by its very nature, . . . a flexible construct that can be used to form the backbone of many different applications and solutions,” Def.’s 2d Supp. Br. at 2, *Super Sack* is clear that “[t]he residual possibility of a future infringement suit based on [the declaratory plaintiff’s] future acts is simply too speculative a basis for jurisdiction over [the] counterclaim for declaratory judgments of invalidity.” *Super Sack*, 57 F.3d at 1060.

C. Inducement or Contributory Infringement by Sproqit

Sproqit’s next contention is that the covenant is inadequate because it does not clearly cover indirect infringement by Sproqit. Sproqit notes that, in its complaint, Visto asserted both inducement and contributory infringement as well as direct infringement for all four patents at issue.

In briefing filed by Visto on September 15, 2006, Visto clarified that “the covenant covers both direct and indirect infringement, including contributory infringement and inducement, where the directly infringing product is one which was advertised, manufactured, marketed or sold by Sproqit on or before the date of the covenant.” Pl.’s Memo. at 2. The Court understands Visto’s representation also covers products currently advertised, manufactured, marketed, or sold as of the date of the covenant in accord with the terms quoted above. Accordingly, this issue is moot.

D. Sproqit’s Customers, Licensees, or Other Authorized Users

Sproqit further asserts that covenant is insufficient as it does not cover its customers, licensees, or other authorized users. In its September 15 briefing, Visto concedes that “[t]he [c]ovenant [c]overs Sproqit’s [c]ustomers, [l]icensees, [o]r [o]ther [a]uthorized [u]sers [o]f Sproqit’s [e]xisting [p]roducts, [b]ut [n]ot [o]f [f]uture [u]nnamed [c]ustomers on [f]uture [u]nnamed

[p]roducts.”² *Id.* The Court agrees with Visto based on *Microchip Tech., Inc. v. Chamberlain Group*, 441 F.3d 936 (Fed. Cir. 2006) that is the exclusion of future unnamed customers of future unnamed products does not create a justiciability controversy.

In *Microchip*, the Federal Circuit held that there must “be an underlying legal cause of action that the declaratory defendant could have brought or threatened to bring” in order for the declaratory plaintiff to have a reasonable apprehension of a future suit. *Id.* at 943. In this case, Sproqit itself has no reasonable apprehension based on its customers, licensees, or other authorized users because Visto has admitted that the covenant covers indirect infringement as well as direct, and Visto has stipulated to customers, licensees and authorized users of Sproqit’s existing products.

While the Federal Circuit noted that it is possible for a declaratory plaintiff’s customers to have an adverse legal interest with respect to the declaratory defendant, there was no such interest in *Microchip*, because plaintiff’s customers “were not parties to this action” and the declaratory plaintiff did not “establish[] a legal relationship between it and a customer that had a legal interest adverse to [the declaratory defendant], such as the existence of an indemnity agreement between [the declaratory plaintiff] and its customer.” *Id.* At best, the declaratory plaintiff “had only an economic interest in clarifying its customers’ rights under [the] patents [at issue], which may have facilitated the sale of [the declaratory plaintiff’s] products,” but “an economic interest alone . . . cannot form the basis of an ‘actual controversy’” because the declaratory plaintiff “was under no threat of legal harm.” *Id.*

In the instant case, Sproqit has not provided any evidence that it has an indemnification agreement with any of its customers. Nor has it submitted any evidence indicating that Visto has made any threats to Sproqit’s customers. Compare *Intellectual Property Development, Inc. v. TCI Cablevision of California, Inc.*, 248 F.3d 1333, 1341 (Fed. Cir. 2001) (potential suit against entity entitled to indemnification from accused not sufficient to preserve justiciability). Accordingly, at best, Sproqit has only an economic interest in clarifying its customers’ rights. That interest is even

² Sproqit argues that, because the covenant does not extend to future customers, licensees, and authorized users, it “does not dissipate the justiciable controversy before the court.” Def.’s 2d Supp. Br. at 3. Sproqit, however, has misread Visto’s brief. Visto states that the covenant does cover customers -- just not customers on *future products*.

1 further attenuated given Visto's stipulation that existing customers are covered by its covenant. As
2 in *Microchip*, any economic interest of Sproqit is insufficient to create a case or controversy.

3 E. Sproqit's Successors or Acquirers

4 Sproqit asserts that the covenant is insufficient because it does not extend to its successors or
5 acquirers. Visto in turn argues that the covenant may be personal and nontransferable, citing in
6 support *Inline Connection Corp. v. Atlantech Online, Inc.*, 85 Fed. Appx. 767, 769 (Fed. Cir. 2004)
7 ("Future disputes relating to Atlantech's successors in interest and others in privity with Atlantech
8 are just that -- future disputes. They must be left to future cases and are not ripe for consideration in
9 this case."), and *Vision Biosystems (USA) Trading, Inc. v. Ventana Med. Sys., Inc.*, No. 03-10391-
10 GAO, 2004 U.S. Dist. LEXIS 21449, at *31 (D. Mass. Sept. 30, 2004) ("The possibility that Vision
11 might transfer certain interests in the future to an unidentified third party remains remote and
12 speculative and does not demonstrate a live controversy between the present parties.").

13 Sproqit criticizes Visto's reliance on *Inline* because it is an unpublished case, *see* Fed. Cir. R.
14 47.6(b) ("An opinion or order which is designated as not to be cited as precedent is one unanimously
15 determined by the panel issuing it as not adding significantly to the body of law. Any opinion or
16 order so designated must not be employed or cited as precedent."), and *Vision Biosystems* to the
17 extent it relies on *Inline*. While *Inline* is an unpublished case, and therefore not precedential, the
18 Court is not barred from examining its reasoning and adopting that reasoning if persuasive. As for
19 *Vision Biosystems*, it did not expressly rely on *Inline*, simply making note of the case in a footnote.
20 *See Vision Biosystems*, 2004 U.S. Dist. LEXIS 21449, at * 32 n.2.

21 The Court holds that the covenant is adequate even though it does not extend to Sproqit's
22 successors or acquirers. In *Super Sack*, the Federal Circuit stated that "[t]he residual possibility of a
23 future infringement suit based on [the declaratory plaintiff's] future acts is simply too speculative a
24 basis for jurisdiction over [the] counterclaim for declaratory judgments of invalidity." *Super Sack*,
25 57 F.3d at 1060. Although the Federal Circuit made this statement in the context of future products,
26 the same reasoning would apply to future successors or acquirers. As noted above, even before
27 Visto issued the covenant not to sue herein, Visto had raised a substantial argument that Sproqit's
28 asserted intent to produce and sell the accused product once this case was terminated in its favor was

1 insufficient to establish justiciability. While the Court does not rely on the current record to find
2 nonjusticiability on this factor alone, the additional layer of events that would have to transpire
3 before a potential successor would come into play exacerbates the remoteness of the purported
4 controversy here. Sproqit has presented no evidence of any imminent or concrete plan or ability to
5 sell or assign its intellectual property to a successor.

6 F. Re-examination Claims

7 Sproqit contends next that the covenant is inadequate because it does not extend to re-
8 examination claims. Sproqit highlights the fact that the '708 patent is currently in reexamination --
9 all of the original claims in the '708 patent have already been rejected as invalid over the prior art
10 and that Visto has therefore amended the claims of the '708 patent and added new claims in the
11 reexamination process. Sproqit also notes that the '192 patent was sent back into reexamination in
12 August 2006 and that a request for reexamination has been made with respect to the '221 patent.

13 The problem for Sproqit is that its argument is foreclosed by *Spectronics Corp. v. H.B.*
14 *Fuller Co.*, 940 F.2d 631 (Fed. Cir. 1991). In *Spectronics*, the Federal Circuit found that a
15 declaratory judgment plaintiff did not have a reasonable apprehension about a future suit based on a
16 pending reissue application. The court explained that "[t]here is . . . no guarantee that the reissue
17 patent will eventually issue" and added that, even if the plaintiff did have a reasonable apprehension
18 about a future suit based on the reissue patent, the plaintiff could not "demonstrate that its present
19 activity is potentially infringing of any patent claims, since . . . no reissue patent claims yet exist by
20 which infringement *vel non* can be measured." *Id.* at 636; *see also Amana Refrigeration, Inc. v.*
21 *Quadlux, Inc.*, 172 F.3d 852, 856 (Fed. Cir. 1999) ("[T]he future existence of a reissue patent is
22 wholly speculative and, therefore, cannot create a present controversy."). While *Spectronics* and
23 *Amana* dealt with reissue applications, the same reasoning would apply to reexamination. *See*
24 *Vision Biosystems*, 2004 U.S. Dist. LEXIS 21449, at *32 ("Vision's concern that some claims may
25 emerge from the PTO's reexamination of the '439 patent is too speculative and does not provide a
26 basis for jurisdiction at this time.").

27 Sproqit tries to distinguish *Spectronics*, stating that in that case, the patent owner initiated
28 reissue proceedings "before extensive litigation." Def.'s Supp. Br. at 8. But nothing in *Spectronics*

1 indicates that the Court's ruling was based on, or even took into account, whether the litigation was
 2 in the early or late stage of proceedings. The point remains that what ultimately emerges from the
 3 PTO is still speculative and, until the precise form of the claim is fixed and presented, Sprokit's
 4 assertion of noninfringement are not sufficiently concrete to measure.³

5 G. Dismissal With or Without Prejudice

6 For the foregoing reasons, the Court rejects Sprokit's arguments that Visto's covenant not to
 7 sue is inadequate and further holds that the covenant divests the Court of jurisdiction over Sprokit's
 8 declaratory relief counterclaims as well as Visto's claims.

9 Sprokit's final contention is that the dismissal of its counterclaims should be without
 10 prejudice and Visto's claims with prejudice. Sprokit notes that that approach was taken by the
 11 Federal Circuit in *Intellectual Property Development*, 248 F.3d at 1342 (holding that "the statement
 12 of non-liability divested the district court of Article III jurisdiction, and therefore the district court
 13 properly granted the motion to dismiss [plaintiffs'] complaint with prejudice and [defendant's]
 14 counterclaims without prejudice"). Visto does not argue otherwise. The Court agrees that Sprokit's
 15 counterclaims should be dismissed without prejudice and that Visto's claims, in light of its covenant
 16 not to sue issued herein, should be dismissed with prejudice. That is the approach taken by the
 17 courts which have addressed the issue. *See, e.g., Intellectual Property Development*, 248 F.3d at
 18 1349; *Inline*, 2004 U.S. App. LEXIS 771, at *6. Whereas Visto's asserted claims are forever barred
 19 by the covenant and thus warrant dismissal with prejudice⁴ (*see Super Sack*, 57 F.3d at 1060; *BIS*
 20 *Advanced Software Systems*, 2006 U.S. Dist. LEXIS 12223, at *5; *Glenayre Electronics*, 1994 U.S.
 21 Dist. LEXIS 8631, at *12), Sprokit's counterclaims are dismissed on grounds of mootness only. *See*
 22 *MedImmune, Inc. v. Genentech, Inc.*, 427 F.3d 958, 970 (Fed. Cir. 2005) ("[W]e have stated that a

23
 24 ³ *Spectronics* holds that original claims reissued without substantive change would be subject
 25 to the covenant not to sue and that there is cause to fear a suit for future infringement only of
 "substantively non-identical claims." *Spectronics*, 940 F.2d at 637. That fear is not sufficient to confer
 justiciability.

26 ⁴ Sprokit's concern that Visto's covenant did not expressly state it was binding on Visto's
 27 successors are obviated by the dismissal with prejudice. The Court notes that, even though counsel's
 28 statement in *Super Sack* did not expressly refer to *Super Sack*'s successor, the court in *Intellectual*
Property Development held that statement in *Super Sack* bound any successor. *See Intellectual Property*
Development, 248 F.3d at 1340.

1 dismissal for lack of subject matter jurisdiction is usually one without prejudice because the
2 dismissing court has no power to render a judgment on the merits of the dismissed claim.”);
3 *Landmark Land Co. v. FDIC*, 256 F.3d 1365, 1380 (Fed. Cir. 2001) (noting that “the
4 case-or-controversy requirement is a component of subject matter jurisdiction”); *cf. Knauf Fiber*
5 *Glass, GmbH v. Certainteed Corp.*, No. 1:02-cv-1215-DFH, 2004 U.S. Dist. LEXIS 6291, at *3 n.1
6 (N.D. Ind. Mar. 24, 2004) (“Although *Super Sack* itself affirmed dismissal with prejudice, later
7 Federal Circuit law makes clear that dismissal of counterclaims in response to a *Super Sack*
8 declaration should be without prejudice [citing *Intellectual Property Development*]. Dismissal for
9 lack of subject matter jurisdiction is ordinarily without prejudice, of course, because the court has
10 not adjudicated the merits of the claim and the decision does not bar a future decision on the
11 merits.”).

12 III. CONCLUSION

13 For the foregoing reasons, the Court grants Visto’s motion to dismiss based on the covenant
14 not to sue. Visto’s claims are dismissed with prejudice. Sproqit’s counterclaims are dismissed
15 without prejudice. Visto’s prior motion to dismiss (Docket No. 192) and Sproqit’s motion for a
16 protective order (Docket No. 213) are moot.

17 The Clerk of the Court is ordered to enter final judgment and close the file in this case.

18
19 IT IS SO ORDERED.

20
21 Dated: October 4, 2006

22
23 
EDWARD M. CHEN
United States Magistrate Judge